



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office - Audits Division
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Oakland, California 94607-4052

April 16, 2003

MEMORANDUM

TO: Jeff Griffin, Regional Director, FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico, Field Office Director

SUBJECT: County of Los Angeles
Los Angeles, California
Public Assistance Identification Number 037-00000
FEMA Disaster Number 1005-DR-CA
Audit Report Number DO-04-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the County of Los Angeles, Los Angeles, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to Federal regulations and FEMA guidelines.

The County received an award of \$5.1 million from the California Office of Emergency Services (OES), a FEMA grantee, for damage resulting from wildland fires and subsequent damage from soil erosion, landslides, flooding, and mudslides. The disaster period was October 26, 1993, through April 22, 1994. The award provided for 75 percent FEMA funding for eight large projects and eight small projects.¹ The audit covered the period October 26, 1993, to April 27, 2001, and included the review of four large projects with a total award of nearly \$4.7 million (see attached Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit

¹ Federal regulations in effect at the time of the disaster defined a large project as one costing \$42,400 or more and a small project as one costing less than \$42,400.

included tests of the County's accounting records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The County's claim included questionable costs of \$751,627 (FEMA's share \$563,720). The questionable costs consisted of \$497,880 of overstated fringe benefits, \$236,297 of excessive labor rates, \$16,055 of duplicate labor costs, and \$1,395 of overstated equipment costs.

Finding A - Overstated Fringe Benefits

The County overstated fringe benefits on overtime labor and claimed \$497,880 in excessive costs (project numbers 73882 and 10226 for the Sheriff's Department). The County applied a fringe benefits rate of 22 percent rather than an actual rate of 5.185 percent to overtime labor.

The Sheriff's Department responded to emergency situations during the 1993 firestorms claiming \$2,843,535 on project number 73882 for overtime labor costs. The Sheriff's Department also assisted at polling stations to ensure integrity of the election process and safety of register-recorder personnel claiming \$44,671 on project number 10226 for overtime labor costs. The County applied a fringe benefits rate of 22 percent to the overtime labor, resulting in costs for fringe benefits of \$625,554 and \$9,827 on project numbers 73882 and 10226, respectively. Although FEMA allowed the 22 percent fringe benefits rate in preparing project documentation, the fringe benefits rate used by the Sheriff's Department in 1993 for pay purposes was actually 5.185 percent. Details on the application of the inflated fringe benefits rate for project numbers 73882 and 10226 are provided below:

- Fringe benefits for project number 73882 were overstated by \$490,369. As discussed in finding B below, \$236,297 of claimed overtime labor was unsupported. Therefore, supported eligible overtime labor costs of \$2,607,238 (\$2,843,535 minus \$236,297) should have been burdened with the actual fringe rate of 5.185 percent. The difference of \$490,369 [\$625,554 claimed minus (\$2,607,238 times 5.185 percent)] was considered ineligible due to the overstated fringe benefits rate.
- Fringe benefits for project number 10226 were overstated by \$7,511. The difference of \$7,511 [\$9,827 claimed minus (\$44,671 times 5.185 percent)] was considered ineligible due to the overstated fringe benefits rate.

According to Office of Management and Budget Circular A-87, Attachment B, Section 11.d.(1), the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit. Applying a different rate to disaster related work is not reasonable because certain benefits are accrued at fixed rates regardless of the type of

work performed. Therefore, the OIG questions \$497,880 (\$490,369 plus \$7,511) claimed by the County for the costs associated with the overstated fringe benefits rate.

Finding B - Excessive Labor Costs

The County claimed \$236,297 in excessive overtime labor costs on project number 73882 because it used the highest step of the job classification for Sheriff's Department employees rather than the employees actual step of the job classification at which they were paid. Title 44, Code of Federal Regulations, Section 13.20(b)(6) [44 CFR 13.20(b)(6)], requires grant recipients to maintain records and source documents for the purpose of identifying how FEMA funds are spent and that accounting records be supported by source documents such as cancelled checks, paid bills, mileage logs, and payroll records.

A labor summary initially provided by the County overstated the \$2,843,535 of claimed labor costs because the highest job classification steps were used. The County revised its summary based on the actual job classification step paid to each employee and provided that summary for auditor review. The OIG validated the County's revised total of \$2,607,238. The difference between the amount claimed and the amount revised (\$2,843,535 claimed minus \$2,607,238 revised) is \$236,297. Therefore, the OIG questions that amount as excessive overtime labor costs.

Finding C - Duplicate Labor Costs

The County claimed \$16,055 in duplicate labor costs on project number 73882 because of an inadvertent error in compiling its claim. According to 44 CFR 206.228(a)(4), as clarified in FEMA's Public Assistance Policy Digest, labor rates can include actual wages paid plus fringe benefits paid or credited to personnel. The OIG found \$32,110 claimed for overtime labor costs that resulted from multiple employees claimed twice for the same work. A decrement factor of 50 percent was used to reduce the claimed amount so that duplicate costs were questioned. Therefore, \$16,055 of the \$32,110 claimed by the County for overtime labor costs is questionable.

Finding D - Overstated Equipment Costs

The County claimed \$1,395 in overstated equipment costs on project number 73882 because it used a higher mileage rate for force account equipment than authorized by FEMA's Schedule of Equipment Rates. According to 44 CFR 206.228(a)(iii), reimbursement for ownership and operation costs of applicant-owned equipment used to perform eligible work shall be provided in accordance with the FEMA Schedule of Equipment Rates if no local rates have been established and approved. FEMA's Schedule of Equipment Rates established the vehicle mileage rate as \$0.25 per mile. Although the Sheriff's Department did not have an established rate for police vehicles, mileage rates of \$0.26 and \$0.30 per mile were used in

its claim. Based on these overstated rates, the County claimed \$34,864. Mileage costs using FEMA Schedule of Equipment Rates is \$33,469 (133,878 miles times \$0.25 per mile). Therefore, \$1,395 (\$34,864 minus \$33,469) claimed by the County for equipment costs is a questionable cost.

RECOMMENDATION

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES, disallow \$751,627 of questionable costs.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with the County and OES officials on February 6, 2003. Those officials generally agreed with the findings and recommendation. The OIG also discussed audit results with FEMA Region IX officials on April 15, 2003.

Pursuant to FEMA instruction 1270.1, please advise this office by June 16, 2003, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Brian Byrne, Venetia Gatus, and Trudi Powell.

Schedule of Large Projects Audited
 County of Los Angeles
 Los Angeles, California
 Public Assistance Identification Number 037-00000
 FEMA Disaster Number 1005-DR-CA

Project Number	<u>Amount Awarded</u>	<u>Questioned Costs</u>	<u>Finding Reference</u>
10226	\$ 54,498	\$ 7,511	A
73830	55,000	0	
73832	1,026,220	0	
73882	<u>3,537,598</u>	<u>744,116</u>	A, B, C, D
Totals	<u>\$4,673,316</u>	<u>\$751,627</u>	

Legend:

- A. Overstated Fringe Benefits
- B. Excessive Labor Costs
- C. Duplicate Labor Costs
- D. Overstated Equipment Costs